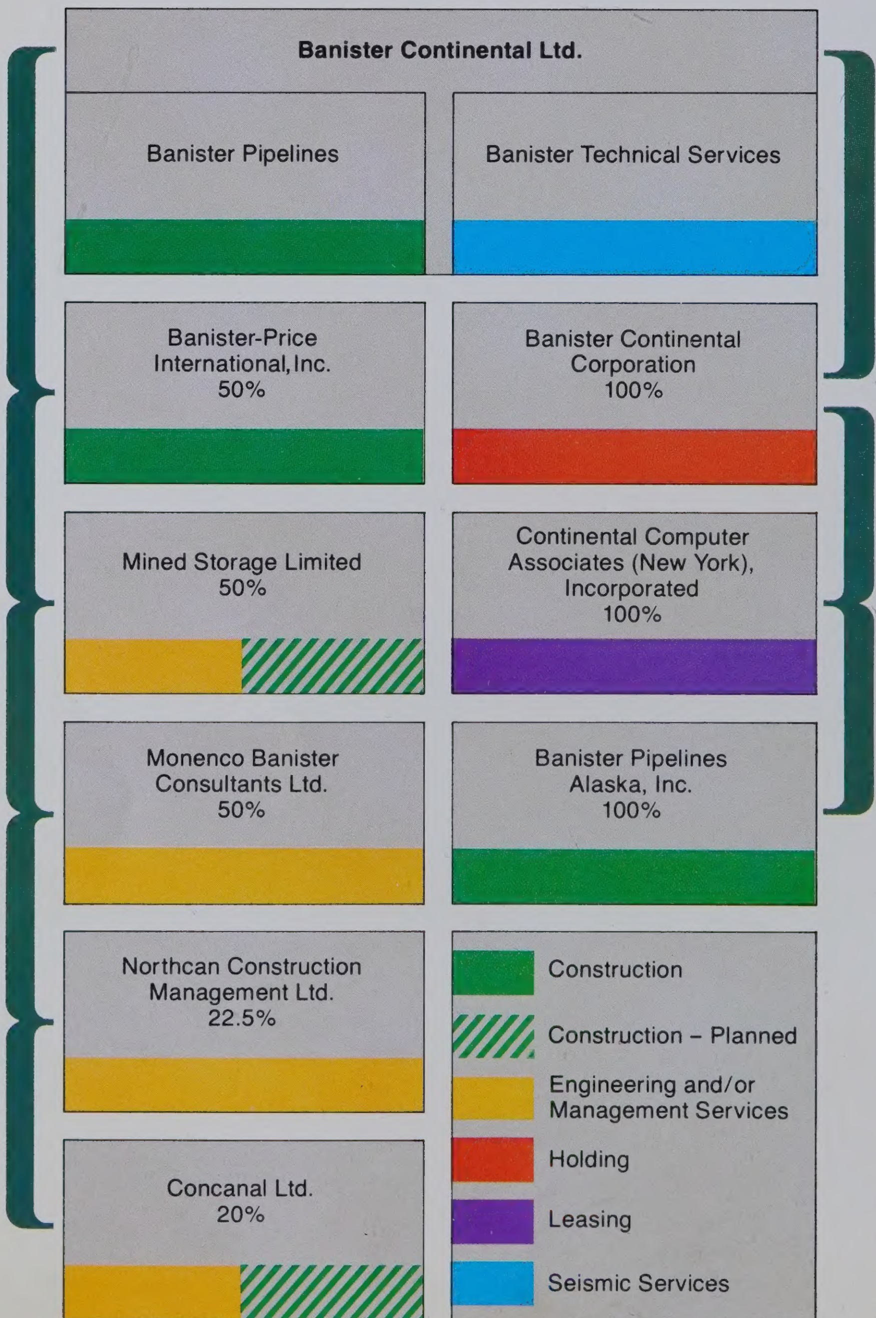
Banister Continental Ltd.

Annual Report 1975

Principal Members of The Banister Group



Foreword

The primary businesses of Banister Continental Ltd. are oil and gas pipeline construction and computer leasing, although shareholders will observe from the chart alongside the increased scope and diversity of construction and engineering services now being offered by Banister group members and affiliates. During the past fiscal period, we have welcomed Banister-Price International, Inc., Banister Technical Services, Mined Storage Limited, Monenco Banister Consultants Ltd. and Northcan Construction Management Ltd. into association with your Company. These business activities are described in the pages that follow.

Insofar as pipeline operations are concerned, the Company is engaged in all phases of oil and gas pipeline contracting, from the laying of large diameter pipe for transmission lines to the laying of domestic gas service lines. It operates in Canada and Alaska, and recently commenced operations in the Middle East through a joint venture company.

FRONT COVER:
Aerial view of Banister's joint venture operation at Fairbanks — double jointing sections of the trans-Alaska oil pipeline.

BACK COVER:
Automatic welding machines reduce costly Alaskan operations by bonding together two lengths of 48-inch diameter pipe.

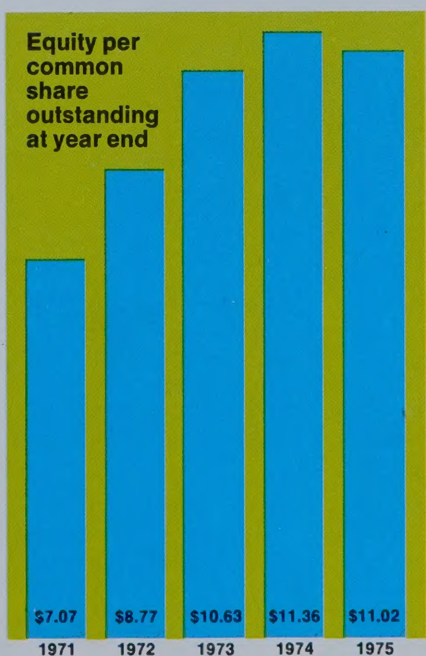
Financial Highlights

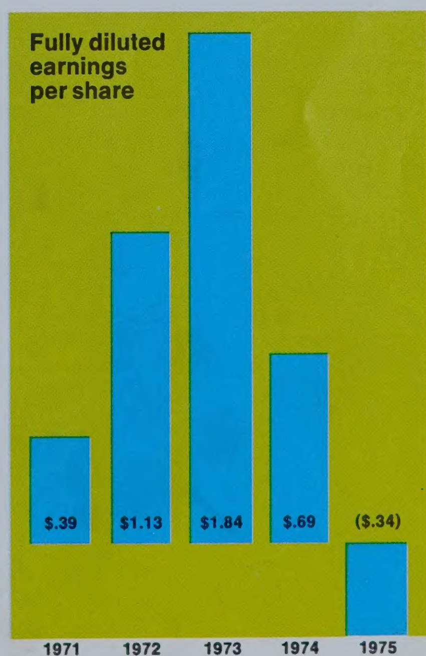
(Stated in Canadian Dollars)

As a pipeline contractor, the Company typically undertakes to clear and grade the pipeline right-of-way, off-load and stockpile the pipe, transport it to the right-of-way and string it preparatory to welding. A ditch is then dug with trenching machines and backhoes, and the pipe is bent, lined up, welded, cleaned, coated, wrapped and lowered into the trench. The trench is then backfilled and the right-of-way cleaned up. The complete pipeline is then pressure tested, using a hydrostatic or pneumatic test medium. The Company also installs pipeline river crossings, and tests and upgrades existing pipelines.

The Company's computer leasing activities are carried out by Continental Computer Associates (N.Y.), Inc., a wholly owned subsidiary. The computer portfolio at year end consisted of 72 IBM computer systems with equipment on lease to clients in 31 states. The equipment is generally leased to the user for terms ranging from twelve to thirty-six months at lease rates lower than those offered by IBM.

	Year ended March 31	
	1975	**1974**
Gross Revenue	**$27,468,000**	$40,623,000
Net Income (Loss)	**$ (1,377,000)**	$ 2,842,000
Earnings (Loss) Per Share: Basic	**(34¢)**	71¢
Fully Diluted	**(34¢)**	69¢
Depreciation	**$ 8,164,000**	$ 6,644,000
Average Common Shares Outstanding	**4,029,582**	4,016,000
Shareholders' Equity	**$44,399,000**	$45,776,000
Cash and Short-Term Deposits	**$16,986,000**	$18,453,000
Total Assets	**$55,128,000**	$57,262,000





Report To Our Shareholders

Fiscal year 1975 proved to be one of great disappointment for management, as Banister turned in its first deficit year as a public company. The Company sustained a net loss of $1,377,000 or 34¢ per share in the year just ended compared to net income of $2,842,000 or 71¢ per share earned in fiscal 1974. Consolidated revenues amounted to $27,468,000 as against $40,623,000 in the previous year. Working capital provided from operations was $5,537,000 during fiscal 1975 compared to $9,684,000 for fiscal 1974.

The decrease in revenues was attributable primarily to a continuing decline in pipeline construction activity in Canada. In addition, a continuing reduction in unit rental rates for IBM System/360 computers and the longer periods required to re-lease and re-market computers resulted in a decrease in revenues from our computer leasing subsidiary.

The Company uses the equity method of accounting to reflect its joint venture activities. Under this accounting method revenues of joint ventures are not reflected in the Company's consolidated revenues, while the Company's proportionate share of net income of the joint ventures is reflected in consolidated net income. (See note 2 to the Financial Statements).

Your Company continues to be optimistic about long term pipeline construction opportunities in Canada and Alaska, although the major proposed Arctic pipelines are plagued by a multitude of complications which makes it difficult to predict when or if construction of any of them will commence. Recognizing the dependence of revenues upon pipeline construction in North America during a period of reduced activity in Canada, management has adopted policies to broaden and stabilize the Company's revenue and income base. To achieve these goals, business opportunities are being sought in several areas, many of which would enable the Company to utilize its pipeline construction expertise. The initial results of these new activities are described elsewhere in this report.

We are also able to report that Banister has emerged from the most difficult period of its recent history in a strong, healthy financial condition including a record year-end working capital level of more than $19 million.

North American Pipeline Construction

With the realization that the era of Canadian self-sufficiency in oil and natural gas resources is gradually drawing to a close, Canadian regulatory agencies have implemented export restrictions and conservation measures which cumulatively are reducing the demand for construction of new oil and natural gas transmission lines. Several other factors also contributed to a slowdown in Canadian pipeline construction during 1974 and 1975, and Banister Pipelines, traditionally active in the domestic industry, was seriously impacted by this slowdown.

The highlight in our construction activities last year was a joint venture contract for 'double jointing' operations in Alaska, of which several photographs appear in this report. Double jointing involves the welding of pairs of 40-foot pipe sections into 80-foot pipe sections with automatic welding machines. Despite a delayed start-up, our Alaskan workers achieved very commendable levels of productivity, thus enabling the Fairbanks operation to wind down its operations ahead of schedule with a similar result forecast for Valdez in late August, 1975. As previously announced, we are also pleased to report that our presence will be maintained in Alaska following the completion of the double jointing contract. This is a consequence of the recent award to an 85% Banister-owned joint venture of a contract for construction of a pipeline gathering system at Prudhoe Bay on Alaska's North Slope. The new joint venture is currently mobilizing for an early construction start in order to meet the July, 1978 scheduled completion date.

International Pipeline Construction

In January, 1975 your Company and the H. C. Price Company of Bartlesville, Oklahoma, which through an affiliate has had several years of experience in the Middle East, formed Banister-Price International, Inc., an equally owned pipeline construction arm for the parent companies in all areas of the world except North America and Algeria. The new entity has a sufficient backlog of work, mainly in Iraq, to keep its construction crews fully occupied until December, 1976. The principal contract secured to date by Banister-Price has been for the construction of 212 miles of a 40-inch crude oil pipeline from northeastern Iraq to the Turkish border.

The Company believes that the employees of Banister-Price International, Inc. have a high reputation and proven ability to compete effectively for the opportunities created by the increased demands for Middle East hydrocarbons. Despite the unique risks associated with working in the Middle East, we are enthusiastic about future operations in the area.

Computer Leasing

Continental Computer Associates (N.Y.), Incorporated, our computer leasing subsidiary, operated in a difficult market environment during the past year, having to contend with increased marketing and administrative costs while experiencing an erosion of revenues in common with other third party lessors of IBM System/360 computers. Depreciation expense pertaining to the computer portfolio also increased significantly during the year. The computer leasing subsidiary performs periodic reviews of the future economic value of its equipment and, as a result of current projections, which recognize continuing declines in rental rates, longer off-lease periods and higher operating expenses, additional depreciation of $1,939,000 was provided in the fourth quarter of fiscal 1975 for a total of $6,455,000 depreciation on these assets for the year. While the Company anticipates continuing declines in rental rates in the future, current projections indicate that the remaining undepreciated portfolio cost of $10,914,000 will be recovered from future revenues net of future expenses.

Continental Computer's policy of selective replacement of assets by purchases meeting strict return on investment criteria may be expected to continue at a modest pace, although the undepreciated portfolio cost of the equipment portfolio will likely continue to decline.

Underground Hydrocarbon Storage

Your Company and Société Française de Stockage Géologique (Geostock) of Paris, France, are equal owners of Mined Storage Limited, a corporation established for the engineering design, construction, construction management, ownership and operation of underground hydrocarbon storage facilities in North America.

Mined Storage Limited has been actively pursuing underground storage opportunities in North America and subsequent to year-end has been awarded a contract by a large Canadian utility company to provide technology, engineering and project management for a 4.8 million barrel underground storage facility for residual and crude oil. The facility will be located in southeastern Ontario and construction is expected to commence later this year with completion scheduled for early 1978.

Executive Offices

Management has determined that execution and control of corporate affairs would be administered more effectively in proximity to pipeline construction operations. Accordingly, the executive offices of Banister Continental Ltd. have been moved from Mississauga, Ontario to Edmonton, Alberta.

Acknowledgments

Messrs. A. J. Cressey and S. S. Beauregard will not be candidates for re-election to the Board of Directors at our Annual Meeting. Mr. Cressey served the Company in many capacities with distinction over the past twenty years and, as President, gave the Company the benefit of his strong personal leadership in strengthening and broadening Banister's activities significantly. Mr. Beauregard departs after one year on the Board, during which time he gave unstintingly of his time in serving your Company.

In June, 1975, I was elected President and Chief Executive Officer following the resignation of Mr. Cressey. I also assumed the role of Chairman of the Board of Directors, a position which has remained vacant since the retirement of my father, Mr. R. K. Banister, some two years ago.

The employees of Banister have devoted considerable effort in the pursuit of new spheres of opportunity for your Company throughout the world. Sincere appreciation is expressed to both employees and Directors who have worked so diligently during this difficult period in building a base for future growth and prosperity. I look forward to working with the people in our various companies with a view to developing Banister into a major Canadian based resource services complex with worldwide capabilities.

R.T. Banister
President and Chairman of the Board

July 11, 1975

Introducing Our New Activities

Engineering Services

As reported in the 1974 annual report, the Canadian North should witness several billions of dollars of pipeline construction work during the next decade. With a view to positioning your Company favourably to participate in such work, and to create a more stable and predictable revenue and earnings base, Banister has been gradually strengthening and solidifying its engineering activities, mainly through joint ventures.

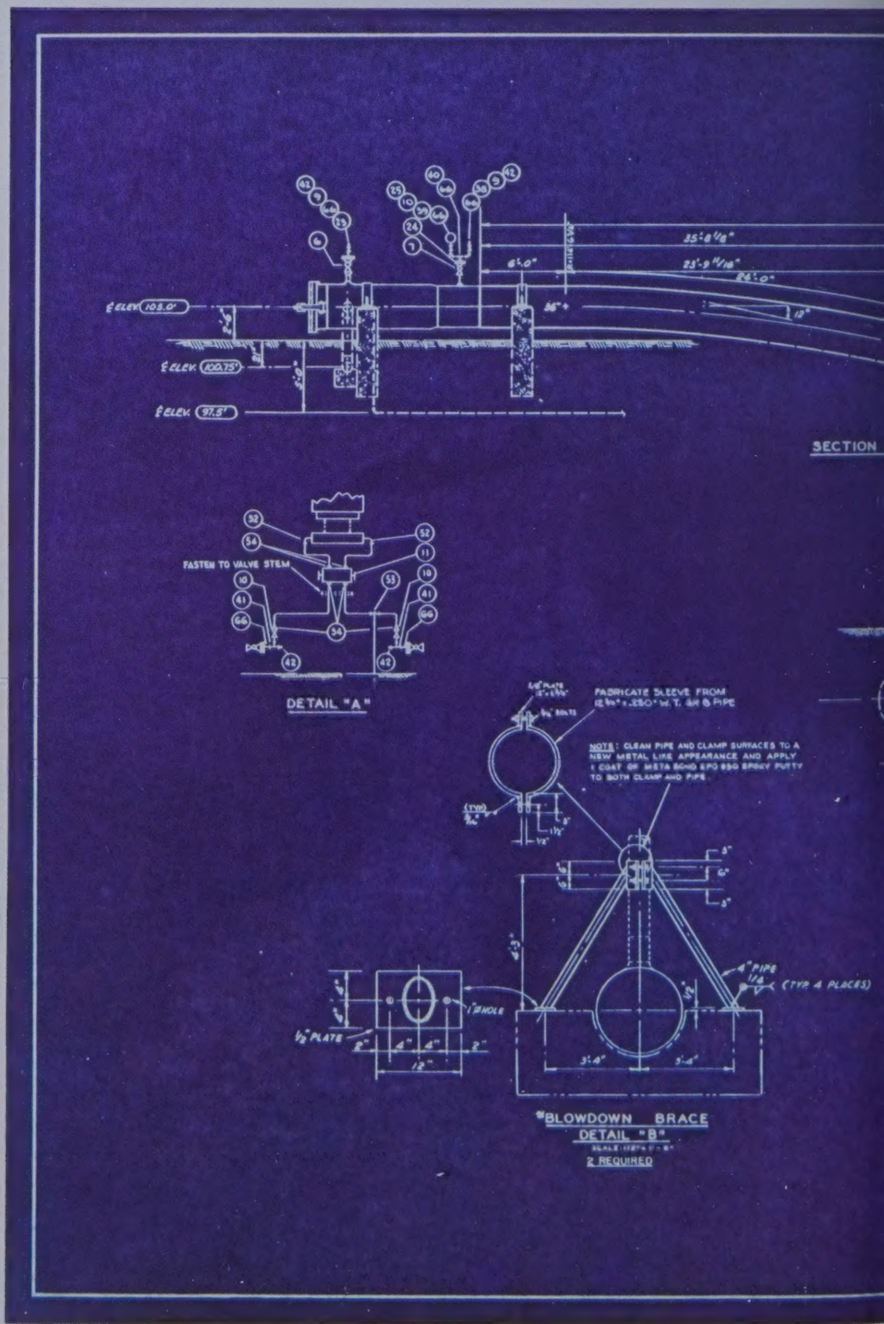
The Company's principal engineering interests are summarized below:

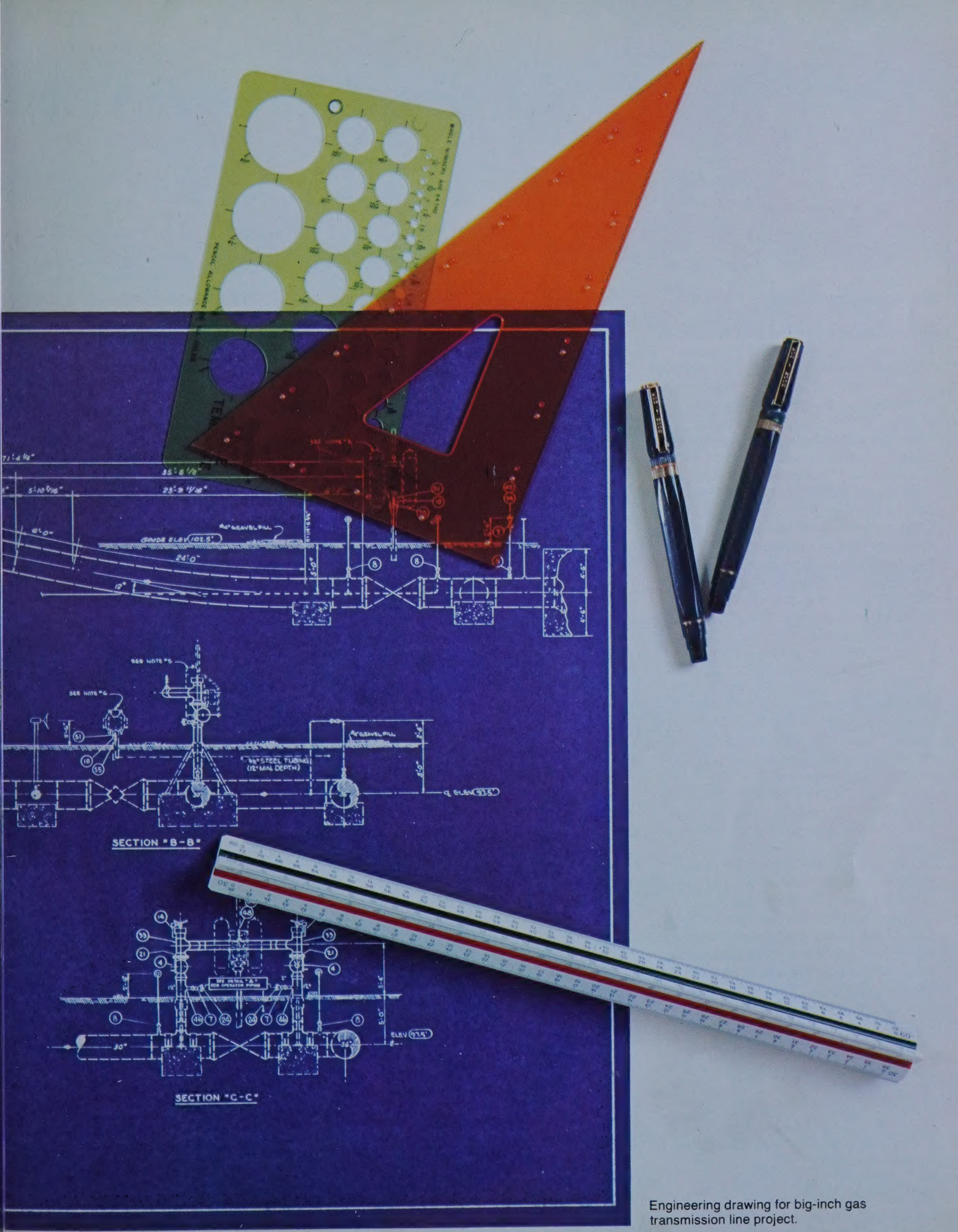
Monenco Banister Consultants Ltd. — In January of this year, Banister joined with Monenco Limited, parent of Montreal Engineering Company Ltd., to form Monenco Banister Consultants Ltd. The new entity has assumed certain engineering feasibility studies formerly carried out by joint venture and is pursuing pipeline engineering and project management contracts in the world marketplace.

Northcan Construction Management Ltd. — a consortium with five other companies which acts as consultant on detailed logistics and construction planning for the proposed Mackenzie Valley gas pipeline for Canadian Arctic Gas Study Ltd.

Concanal Ltd. — a five member consortium pursuing hydrocarbon engineering opportunities within Algeria. During fiscal 1975, Concanal Limited was awarded two assignments for Sonatrach, the Algerian state petroleum and gas corporation — the first entailed engineering design for a natural gas recycling plant at Hassi R'Mel, while the second involved engineering specifications and route selection for a proposed 42 inch pipeline from Hassi R'Mel to the Tunisian border.

Banister Technical Services — a division primarily involved in marine surveys to obtain detailed bathymetry, to identify acceptable marine pipeline route alignments in terms of both bathymetry and sub-bottom soils conditions and to prepare quantitative and qualitative descriptions of shallow ocean sedimentary deposits. A feature of the Banister field survey and data analysis system is its ability to go beyond conventional identification of sediment layers to identify subtle differences in material properties. Its high resolution through sea ice opens up a potential in the Canadian Arctic where vast tracts of waters remain without accurate bathymetric definition.





Engineering drawing for big-inch gas transmission line project.

Underground Storage

Mined Storage Limited was formed by Banister and Geostock of France. Through this relationship, Banister has aligned itself with perhaps the world's foremost authority in underground storage technology. Geostock, a common subsidiary of Shell Française, Société Française des Pétroles BP, Compagnie Française de Raffinage (Total) and Elf Union, represents the pooled underground storage expertise of its parents, and has been operating in Europe in the underground hydrocarbon storage business for over ten years. It is the intention of Mined Storage Limited to market Geostock's technology in the design, engineering, construction, ownership and operation of underground hydrocarbon storage facilities in North America.

Underground storage facilities are generally created in two ways. One is through leaching of subterranean salt beds to produce a pear-shaped structure of somewhat limited dimensions. The other is by the excavation of solid rock by blasting or other means, to produce a network of tunnels whose volumetric capacity is limited only by the availability of suitable rock. This latter type of storage facility, accomplished through conventional mining techniques, must be located sufficiently below the water table such that the hydrostatic head, or external water pressure exerted on the cavities, is greater than the escape pressure of the contained product; hence, the only flow of liquid will be ground water entering the cavern.

Inasmuch as most hydrocarbons are largely immiscible with water and float to the surface, it is a relatively simple matter to pump out excess groundwater for surface treatment.

Large volume underground storage facilities are often cheaper to construct and more economical to operate and maintain than the equivalent capacity aboveground storage tank farms. Underground storage has environmental advantages where surface facilities could prove ecologically disruptive. Valuable land may either be retained in its natural state or put to productive alternate use. Underground storage caverns have also found support because of their resistance to sabotage, substantially reduced risk of fire and the utility of the excavated rock for aggregate, fill and other purposes.

LEFT:
Mined cavern constructed for propane storage in Southern France.

RIGHT:
Banister Technical Services crews engaged in seismic research in the High Arctic.

1975 Financial Statements

Auditors' Report

To the Shareholders of Banister Continental Ltd.:

We have examined the accompanying consolidated balance sheet of Banister Continental Ltd. and its subsidiaries as at March 31, 1975, and the consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at March 31, 1975 and 1974 and the results of their operations and changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the period.

Toronto, Canada
June 23, 1975

Arthur Young, Clarkson, Gordon & Co.
Chartered Accountants

Banister Continental Ltd.

Consolidated Statement of Income

Years ended March 31, 1975 and 1974
(Stated in Canadian Dollars)

	1975	1974
Revenues:		
Pipeline construction and computer rentals (Note 1)	**$ 25,606,000**	$ 39,404,000
Interest and other income	**1,862,000**	1,219,000
	27,468,000	40,623,000
Expenses:		
Operating	**18,065,000**	24,606,000
Depreciation (Note 1)	**8,164,000**	6,644,000
Interest and amortization of deferred charges	**252,000**	350,000
Selling, administrative and general	**3,293,000**	3,090,000
	29,774,000	34,690,000
	(2,306,000)	5,933,000
Equity in income of joint ventures (Notes 1 and 2)	**640,000**	—
Income (loss) before income taxes	**(1,666,000)**	5,933,000
Income taxes (Notes 1 and 6)	**(289,000)**	3,091,000
Net income (loss)	**$(1,377,000)**	$ 2,842,000
Earnings (loss) per share (Note 1):		
Basic	**$(.34)**	$ .71
Fully diluted	**$(.34)**	$ .69

(See accompanying notes)

Banister Continental Ltd.

Consolidated Balance Sheet

March 31, 1975 and 1974
(Stated in Canadian dollars)

Assets

	1975	1974
Current assets:		
Cash and short-term deposits	**$ 16,986,000**	$ 18,453,000
Receivables (Note 2)	**4,810,000**	3,429,000
Recoverable income taxes	**1,188,000**	495,000
Other current assets	**480,000**	485,000
Total current assets	**23,464,000**	22,862,000
Investments in and advances to joint ventures (Notes 1 and 2)	**2,055,000**	—
Fixed assets, at cost less accumulated depreciation (Notes 1, 3 and 5)	**22,312,000**	26,935,000
Excess of cost over net assets at acquisition (Note 1)	**6,938,000**	6,938,000
Other assets	**359,000**	527,000
	$ 55,128,000	$ 57,262,000

Liabilities and Shareholders' Equity

	1975	1974
Current liabilities:		
Accounts payable and accrued liabilities	**$ 2,631,000**	$ 2,990,000
Estimated taxes on income	**74,000**	22,000
Deferred income taxes (Note 1)	**968,000**	395,000
Current instalments of long-term debt (Note 7)	**528,000**	512,000
Total current liabilities	**4,201,000**	3,919,000
Long-term notes payable (Note 7)	**1,022,000**	1,510,000
Subordinated convertible debenture (Note 7)	**2,325,000**	2,262,000
Deferred income taxes (Note 1)	**3,181,000**	3,795,000
Total liabilities	**10,729,000**	11,486,000
Shareholders' equity (Notes 7 and 8):		
Common shares without nominal or par value:		
20,000,000 shares authorized, 4,029,582 shares issued	**27,059,000**	27,059,000
Contributed surplus	**3,240,000**	3,240,000
Retained earnings	**14,100,000**	15,477,000
Total shareholders' equity	**44,399,000**	45,776,000
	$ 55,128,000	$ 57,262,000

(See accompanying notes)

On behalf of the board:

Director

J H Smith

Director

Banister Continental Ltd.

Consolidated Statement of Changes in Financial Position

Years ended March 31, 1975 and 1974
(Stated in Canadian Dollars)

	1975	1974
Working capital provided by:		
Operations:		
Net income (loss)	$(1,377,000)	$ 2,842,000
Add (deduct) non-working capital items:		
Depreciation and amortization	8,198,000	6,677,000
Deferred income taxes	(614,000)	308,000
Gain on sales of fixed assets	(30,000)	(143,000)
Equity in income of joint ventures	(640,000)	—
Total provided from operations	5,537,000	9,684,000
Proceeds from sale of fixed assets	1,693,000	912,000
Proceeds from exercise of stock options and warrants	—	92,000
Other — net	134,000	—
	7,364,000	10,688,000
Working capital used for:		
Additions to fixed assets	5,204,000	5,661,000
Investments in and advances to joint ventures	1,415,000	—
Reduction in long-term notes payable and subordinated debenture	425,000	630,000
Reincorporation costs capitalized	—	238,000
Other — net	—	95,000
	7,044,000	6,624,000
Increase in working capital	$ 320,000	$ 4,064,000
Increases (decreases) in working capital by component:		
Cash and short-term deposits	$(1,467,000)	$ 3,812,000
Receivables	1,381,000	(8,712,000)
Recoverable income taxes	693,000	495,000
Other current assets	(5,000)	8,000
Accounts payable and accrued liabilities	359,000	4,927,000
Estimated taxes on income	(52,000)	719,000
Deferred income taxes	(573,000)	382,000
Deferred revenues	—	1,421,000
Current instalments of long-term debt	(16,000)	1,012,000
Increase in working capital	$ 320,000	$ 4,064,000

(See accompanying notes)

Banister Continental Ltd.

Consolidated Statement of Shareholders' Equity

Years ended March 31, 1975 and 1974
(Stated in Canadian Dollars)

	Common Shares				Treasury Shares		
	Shares	Amount	Contributed surplus	Retained earnings	Shares	Cost	Total
Balance, March 31, 1973 (Note 11)	4,051,998	$28,298,000	—	$14,786,000	(40,750)	$(4,000)	$43,080,000
Net income	—	—	—	2,842,000	—	—	2,842,000
Reincorporation in Canada (Note 11):							
Adjustments to the components of shareholders' equity arising from the reincorporation	(40,750)	(1,331,000)	$3,478,000	(2,151,000)	40,750	4,000	—
Expenses of reincorporation	—	—	(238,000)	—	—	—	(238,000)
Exercise of stock options	18,334	92,000	—	—	—	—	92,000
Balance, March 31, 1974	4,029,582	27,059,000	3,240,000	15,477,000	—	—	45,776,000
Net loss	—	—	—	(1,377,000)	—	—	(1,377,000)
Balance, March 31, 1975	4,029,582	$27,059,000	$3,240,000	$14,100,000	—	—	$44,399,000

(See accompanying notes)

Banister Continental Ltd.

Notes to Consolidated Financial Statements

March 31, 1975 and 1974
(Stated in Canadian Dollars)

1. Accounting Policies

Consolidation policy —
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company accounts for its interests in joint ventures on the equity method.

Translation of foreign currencies —
The accounts of the Company's foreign subsidiaries and joint ventures have been translated into Canadian dollars based on: (1) the year-end exchange rate for current assets, current liabilities, long-term notes payable and subordinated convertible debenture; (2) exchange rates in effect at the time of the transaction for other non-current assets and liabilities; and (3) exchange rates prevailing during the years for revenues and expenses, except for depreciation and amortization which have been translated at rates pertaining to the related assets. Unrealized exchange gains are deferred, except to the extent that they offset previously recognized losses, and all other exchange adjustments are charged or credited to income. Aggregate exchange adjustments, amounting to a gain of $70,000 in 1975 and a loss of $100,000 in 1974, have been included in income.

Revenues —
Revenues from pipeline construction are reflected in income on the basis of percentage of completion of individual contracts. Unbilled costs and revenues on contracts in progress are included in accounts receivable.
Computer leases are accounted for under the operating method, whereby the rental income is recognized ratably over the terms of the leases.

Fixed Assets —
Construction equipment is depreciated on the straight-line method at rates from 10% to 50% after recognition of a salvage value, ranging up to 30%. Depreciation of computer equipment is explained in Note 3. Maintenance and repairs are charged to expense.

Excess of cost over net assets at acquisition —
Excess of cost over net assets at acquisition, which resulted from the 1969 purchase of the Banister pipeline operations, is not being amortized since the Company does not believe there is any diminution of value.

Income Taxes —
Deferred income taxes result from timing differences between financial and tax reporting principally relating to recognition of construction revenues and accelerated depreciation. That portion of deferred income taxes which relates to amounts included in current assets and liabilities is shown as a current asset or current liability.

Income Taxes are provided, where required, on the Company's equity in earnings of joint ventures.

It is the Company's intention to reinvest indefinitely the unremitted earnings of its foreign subsidiaries and, therefore, income taxes have not been provided on such undistributed earnings. Undistributed earnings of these subsidiaries amounted to approximately $655,000 at March 31, 1975.

Investment tax credits are applied when allowable as a reduction of United States Federal income taxes as the qualifying assets are placed into service.

Earnings (loss) per share —
Basic earnings (loss) per share were computed by dividing net income (loss) by the weighted average number of common shares outstanding during each year.

Fully diluted earnings per share in fiscal 1974 were determined on the assumption that the convertible debenture was converted at the beginning of the year and the net income adjusted for the interest (net of tax) plus imputed interest (net of tax) on the proceeds which would have been received on the exercise of outstanding stock options. For fiscal 1975, fully diluted loss per share is the same as basic loss per share as the effect of conversions and exercises would be anti-dilutive.

Earnings per share (loss) have been computed in accordance with generally accepted accounting principles applicable in Canada. Earnings (loss) per share computed in this manner for fiscal 1975 and 1974 are substantially the same as those which would have resulted had the computation been made in accordance with principles applicable in the United States.

2. Joint ventures

The Company has investments in and advances to several joint ventures (ranging from 20% to 50% of the equity ownership) engaged in various activities related to pipeline construction and underground storage of hydrocarbons. Financial position and results of operations for all joint ventures at their most recent fiscal year-ends (principally March 31, 1975) and for the periods then ended are as follows:

Total assets, principally receivables from contracts and inventories	$ 8,911,000
Total liabilities, principally accounts payable	4,969,000
Net Equity	$ 3,942,000
Revenues	$ 10,609,000
Operating Expenses	9,422,000
Income	$ 1,187,000

At March 31, 1975, receivables include $857,000 arising in the ordinary course of business due from the joint ventures for rentals and other expenses.

3. Computer Leasing Operations

At March 31, 1975, the computer equipment consisted of 72 IBM computer systems, including 68 system/360 computers, one System/370 computer, and related peripheral equipment acquired for lease to users. The undepreciated balance (net book value) ot such equipment was $10,914,000 at March 31, 1975.

The lease portfolio is comprised of leases with terms ranging from 12 to 36 months and leases on month-to-month renewal. At March 31, 1975, the non-cancellable portions of existing leases provide for future rentals aggregating $6,539,000; 52% during fiscal 1976; 29% during fiscal 1977; 16% during fiscal 1978; and 3% in later periods. Although the Company has leased certain systems under which rentals receivable during the non-cancellable portion of the lease period exceed its investment in the related equipment, in the aggregate the non-cancellable unexpired portions of the leases are for less than the remaining estimated useful life of the equipment and provide for payment of less than the undepreciated cost; therefore, the Company's ability to recover its entire investment and make a profit thereon will be dependent upon its ability to successfully extend present leases and remarket equipment, at adequate rental rates, or to sell or otherwise utilize the equipment on adequate terms.

Through March 31, 1975, the Company had remarketed equipment having an original cost of approximately $38,087,000 and had extended the leases of equipment having an original cost of approximately $20,392,000. Equipment (including System/360 central processing units in the Model 30 line) with a net book value of $348,000, representing 3.2% of the computer equipment owned by the Company, was off-rent and uncommitted at March 31, 1975, compared to $811,000 and 5.2% respectively at March 31, 1974.

The Company has experienced increasing competition from IBM and other computer lessors for re-leasing and remarketing its System/360 computers as a result of technological developments including IBM's introduction of "Virtual memory" and other enhancements for their System/370 series, introduction of additional models such as Model 115 and 125 in this line, and substantial deliveries of these systems. During fiscal 1975, and particularly the fourth quarter, the Company was adversely affected by continuing declines in System/360 computer leasing rates, and has experienced longer off-lease periods in remarketing its System/360 central processing units. While the

Banister Continental Ltd.

Notes to Consolidated Financial Statements

March 31, 1975 and 1974
(Stated in Canadian Dollars)

Company anticipates continuing declines in these rental rates in the future, it is of the opinion that, based on facts presently known (including its experience to date in leasing IBM System/360 computers, anticipated growth in the use of computers and the price differentials between the 370 and 360 series), it will be able to compete on a price/performance basis and recover its remaining undepreciated portfolio cost from future rentals (net of future expenses).

The Company performs periodic reviews to ascertain the future economic value of its equipment. For its System/360 computers and related peripheral equipment, depreciation has been provided based on the relationship of estimated annual revenues to total estimated revenues through March 31, 1978 (the estimated service life of the portfolio) and after recognition of a salvage value of approximately 5% ($1,622,000). Based on the current projections, recognizing continuing declines in rental rates, longer off-lease periods and higher operating expenses, a provision for additional depreciation of $1,939,000 was recorded in the fourth quarter of fiscal 1975. For its System/370 computer equipment, related peripherals and other equipment, depreciation has been provided based on the relationship of estimated annual revenues to estimated total revenues over the remaining service lives of the equipment (4 to 6 years) after recognition of salvage values and lessee purchase options ($588,000). Based on the current projections, no significant profits will be realized through March 31, 1978, since estimated revenues are approximately equal to estimated depreciation and estimated operating expenses during this period.

4. Retirement Plan Costs

The Company and its subsidiaries maintain retirement plans covering all full-time employees. The Company's policy is to fund retirement costs as accrued and nominal amounts of past service costs are being amortized over approximately ten years. The costs of the retirement plans were approximately $100,000 for 1975 and $67,000 for 1974.

5. Fixed Assets

Fixed assets and related accumulated depreciation (in thousands) are as follows:

	Cost	Accumulated Depreciation	Net Book Value	
	1975	**1975**	**1975**	1974
Construction Equipment	**$16,604**	**$ 5,912**	**$10,692**	$10,477
Computer Equipment	**35,884**	**24,970**	**10,914**	15,713
Other	**1,103**	**397**	**706**	745
	$53,591	**$31,279**	**$22,312**	$26,935

6. Income Taxes

Components of the provision (credit) for income tax are as follows:

	1975	1974
Current:		
Canadian —		
Federal	**$(219,000)**	$2,451,000
Provincial	**(82,000)**	694,000
United States —		
Federal	**119,000**	78,000
State	**52,000**	9,000
	(130,000)	**3,232,000**
Deferred:		
Canadian —		
Federal	**502,000**	204,000
Provincial	**144,000**	59,000
United States —		
Federal	**(861,000)**	(404,000)
State	**56,000**	—
	(159,000)	(141,000)
	$(289,000)	$3,091,000

United States deferred income taxes include investment tax credits of $30,000 recognized in 1974. At March 31, 1975, the Company's United States subsidiaries have approximately $750,000 of operating loss carry-forwards available for financial statement purposes ($400,000 for tax purposes, expiring in 1979 and 1980) to reduce future income taxes. In addition, the subsidiaries have approximately $235,000 of unused investment tax credits expiring from 1979 to 1982.

The recovery of income tax for 1975 at an effective rate of 17.3%, differs from the applicable 51.2% statutory Canadian Federal tax rate principally as a result of operating losses available for carry-forward for which tax benefit has not been recognized, Provincial and State taxes in excess of credits or benefits allowable against Federal taxes, and tax rate differentials relating to the use of losses in certain Jurisdictions of tax loss carry-backs. The 52.1% effective income tax rate for 1974 differs from the applicable 48.8% statutory rate principally as a result of Provincial Taxes in excess of credits allowable against Canadian Federal tax and certain expenses not deductible for tax purposes.

7. Long-term Notes Payable and Subordinated Convertible Debenture

Long-term notes payable consist of the following:

	1975	1974
7½% U.S. dollar subordinated promissory notes due in equal instalments, fiscal years 1975-1978	**$1,500,000**	$1,946,000
7¾% mortgage due 1977	**50,000**	76,000
	1,550,000	2,022,000
Less current instalments	**528,000**	512,000
	$1,022,000	$1,510,000

Banister Continental Ltd.

Notes to Consolidated Financial Statements

March 31, 1975 and 1974
(Stated in Canadian Dollars)

The $5\frac{1}{2}$% U.S. dollar subordinated convertible debenture, which matures in 1988, is convertible (at U.S. $12.19 per share) into 190,730 shares of common stock and requires annual sinking fund payments of U.S. $233,000 from fiscal years 1980 through 1988. Such payments may be reduced, at the Company's option, by the principal amount of any conversions.

At March 31, 1975 aggregate debt repayment requirements were: 1976 — $528,000; 1977 — $522,000; 1978 — $500,000; 1980 — $233,000; subsequently — $2,092,000.

8. Stock Options

The Company has stock option plans under which options may be granted to officers and other key employees. Options under two of the plans are exercisable as to 50% of the shares one year after the date of grant and as to the remaining 50% two years after the date of grant and expire three years after the date of grant. Under a third plan options become exercisable as prescribed by the stock option committee except that no option shall become exercisable as to any shares until the expiration of at least one year from the date on which it was granted and all options shall terminate no later than five years after the date on which they were granted. Options which have been granted under this plan become exercisable in four equal cumulative annual instalments beginning one year after the date of grant and expire five years after the date of grant. All options are exercisable at a price not less than the fair market value of the Company's common stock on the date of the grant of such options.

Options for 9,750 shares at prices ranging from $13.38 to $27.69 per share were outstanding at March 31, 1974 and March 31, 1975. Options for 1,500 shares were exercisable at $13.38 per share and options for 2,062 shares were exercisable at prices of $27.50 and $27.69 per share at March 31, 1975. There were no options granted, exercised or cancelled during fiscal 1975. At March 31, 1975, 93,435 shares were available for future option grants and 103,185 shares were reserved for issuance upon exercise of stock options.

9. Long Term Leases

The Company leases certain administrative facilities and equipment and construction equipment. Total rental expense amounted to $1,202,000 and $1,860,000 for fiscal years 1975 and 1974 respectively, of which $97,000 and $359,000 respectively, was incurred under various leasing arrangements based on usage of construction equipment. Construction equipment is generally leased for periods of less than one year. Minimum rental commitments under non-cancellable leases in effect at March 31, 1975 for administrative facilities and equipment aggregate approximately $130,000 for fiscal 1976, declining to approximately $30,000 in fiscal 1979.

The Company had no non-capitalized financing leases.

10. Remuneration of Directors and Senior Officers

The aggregate direct remuneration of directors and senior officers including the five highest paid employees was $421,000 (a total of 16 persons) for fiscal 1975 and $499,000 (a total of 13 persons) for fiscal 1974.

11. Reincorporation in Canada

Banister Continental Ltd. is the successor to the business of Banister Continental Corporation which, on April 2, 1973, changed its jurisdiction of incorporation from Pennsylvania to Alberta by transferring all of its assets subject to all of its liabilities to Banister Continental Ltd., its wholly-owned Canadian pipeline contracting subsidiary, in exchange for 4,011,248 shares. Banister Continental Corporation distributed to its shareholders one common share of Banister Continental Ltd. in exchange for each share of Banister Continental Corporation's outstanding common stock.

Information for fiscal 1973 and prior years is for Banister Continental Corporation as it existed prior to the reincorporation.

12. Subsequent events

Banister Continental Ltd., on January 23, 1975, announced the establishment of a new corporate joint venture Banister-Price International, Inc. (BPI), owned 50% by Banister Continental Ltd., and 50% by H. C. Price Co., a private corporation. The new Company will conduct the pipeline construction activities of the shareholders in all areas outside North America except Algeria.

Subsequent to March 31, 1975, on April 2, 1975 and June 1, 1975, Banister-Price International, Inc., as contemplated in a January 23, 1975 agreement, completed the acquisition from an affiliate of H. C. Price Co. of certain pipeline construction machinery and equipment and related parts and tools, together with a 50% interest in a pipeline construction contract in progress in Iraq, for an aggregate purchase price (subject to a final accounting) of approximately $9,000,000.

At March 31, 1975, Banister Continental Ltd. had an investment of $25,000 in Banister-Price International, Inc.. In connection with the transactions described above, for working capital and for equity capital requirements, the Company and H. C. Price Co. each provided BPI with an additional $4,138,000 subsequent to the year end. In connection with negotiations by BPI to obtain bank or other financing and lines of credit to conduct its contemplated activities, the Company may be called upon to provide additional advances or equity capital to BPI, or to guarantee 50% of loans and bank guarantees to BPI, (with H. C. Price Co. providing similar advances, equity, or guarantees as to 50%) in amounts up to approximately $12,000,000.

Market for common shares

The common shares of Banister Continental Ltd. are traded on the American Stock Exchange in the United States and the Toronto and Montreal Stock Exchanges in Canada. Following is a schedule of high and low share prices on the American Stock Exchange by quarter, for the fiscal years ending March 31, 1975 and 1974.

	Year ending March 31			
	1975		1974	
	High	Low	High	Low
Quarter ending:				
June 30	$17\frac{1}{4}$	$5\frac{1}{2}$	28	18
September 30	$7\frac{1}{8}$	$4\frac{3}{8}$	$29\frac{1}{4}$	$19\frac{1}{8}$
December 31	$7\frac{1}{4}$	$3\frac{7}{8}$	$30\frac{1}{2}$	17
March 31	$7\frac{1}{2}$	$4\frac{3}{8}$	21	14

No dividends have been declared or paid during the past five years on the common shares of the Company.

Five Year Summary and Management Analysis

For the years ended March 31
(Stated in Canadian Dollars)

Consolidated Summary of Operations (a)	1975	1974	1973	1972	1971
Revenues	**$27,468,000**	$40,623,000	$66,341,000	$48,227,000	$25,558,000
Expenses:					
Operating	**18,065,000**	24,606,000	41,808,000	30,187,000	15,192,000
Depreciation	**8,164,000**	6,644,000	5,099,000	4,386,000	3,758,000
Interest and amortization of deferred charges	**252,000**	350,000	517,000	1,332,000	2,309,000
Selling, administrative and general	**3,293,000**	3,090,000	3,546,000	3,215,000	1,988,000
Total expenses	**29,774,000**	34,690,000	50,970,000	39,120,000	23,247,000
	(2,306,000)	5,933,000	15,371,000	9,107,000	2,311,000
Equity in income of joint ventures	**640,000**	—	—	—	—
Income (loss) before income taxes	**(1,666,000)**	5,933,000	15,371,000	9,107,000	2,311,000
Income taxes	**(289,000)**	3,091,000	7,692,000	4,657,000	1,225,000
Net income (loss)	**$ (1,377,000)**	$ 2,842,000	$ 7,679,000	$ 4,450,000	$ 1,086,000
Earnings (loss) per share (b)					
Basic	**$ (.34)**	$ .71	$ 1.94	$ 1.38	$ .42
Fully diluted	**$ (.34)**	$ .69	$ 1.84	$ 1.13	$ .39
Weighted average common shares outstanding	**4,030,000**	4,014,000	3,954,000	3,209,000	2,440,000
Shareholders' equity	**$44,399,000**	$45,776,000	$43,080,000	$34,381,000	$18,274,000
Preferred dividends	—	—	—	$ 35,000	$ 60,000

Lines of Business Information	1975	1974	1973	1972	1971
Percent of Revenue:					
Pipeline contracting and related services	**84 (c)**	83	91	88	76
Computer leasing	**16**	17	9	12	24
Percent of income (loss) before income taxes:					
Pipeline contracting and related services	**63 (c)**	99	96	96	75
Computer leasing	**(163)**	1	4	4	25

(a) See Note 11 with regard to the reincorporation in Canada.
(b) Earnings (loss) per share for the five years are computed as shown in Note 1. Earnings (loss) per share so computed are in accordance with generally accepted accounting principles applicable in Canada. Earnings (loss) per share computed in this manner are substantially the same as those which would have resulted had the computation been made in accordance with the principles applicable in the United States, except that in 1972, basic earnings per share under the United States method were $1.50 compared to $1.38 under the Canadian method, the difference being attributable to the treatment of conversions of convertible debentures into common shares in the determination of the weighted average number of common and common equivalent shares outstanding during the year.
(c) Includes the Company's proportionate share of revenues and income before taxes from joint ventures.

Management Analysis March 31, 1975

Revenues in fiscal 1975 decreased 32% from the prior year. The decrease was attributable to a continuing decline in pipeline construction activity in Canada, a reduction in unit rental rates for IBM System/360 computers and longer periods required to re-lease and remarket computers. Furthermore, in fiscal 1975, several contracts, the majority of which pertain to pipeline construction and related activities, were obtained by joint ventures in which the Company participated, the financial results of which are reflected in income by the equity method of accounting, under which revenues of the joint ventures are not reflected in the Company's consolidated revenues.

Operating expenses did not decrease in proportion to the decrease in revenues as increasing competition in the Canadian pipeline construction industry and a loss incurred during the latter phases of construction of one of the projects resulted in reduced pipeline construction margins. Depreciation expenses pertaining to the computer portfolio also increased significantly during the year. The computer leasing subsidiary performs periodic reviews of the future economic value of its equipment and, as a result of current projections, which recognize continuing declines in rental rates, longer off-lease periods and higher operating expenses, additional depreciation of $1,939,000 was provided in the fourth quarter of fiscal 1975 for a total of $6,455,000 depreciation on these assets for the year. While the company is anticipating continuing declines in System/360 central processing rental rates, it is of the opinion that, based on facts presently known, it will be able to recover its remaining undepreciated portfolio costs from future rentals (net of future expenses).

Selling, administrative and general expenses have increased 7% during fiscal 1975 as a result of the fixed cost component of such expenses, the impact of inflation, and the efforts expended to extend the company's activities into the international pipeline construction market and other joint ventures.

The income tax recovery is only 17% compared to a normal rate of approximately 50% of the before tax loss of $1,666,000. This occurs largely from not recognizing for financial statement purposes the benefit of operating loss carry forwards of the computer leasing subsidiary.

Management Analysis March 31, 1974

In fiscal 1974, the substantial decrease of 39% in revenues and 63% in net income from the prior year was due to a general decrease in major pipeline construction in Canada and to increased competition for the contracts that were available. Revenues of the computer leasing subsidiary increased slightly as a result of additions to the Company's computer portfolio, and after tax income decreased slightly because equipment coming off lease was remarketed at lower rental rates.

Selling, general and administrative expenses decreased by 13% compared to the previous year reflecting decreased activity partly offset by salary and expense increases.

TOP LEFT:
Banister heavy construction equipment prepared for field mobilization.

TOP RIGHT:
A major bank leases this equipment from Continental Computer to control BankAmericard processing.

BOTTOM:
Close supervision — a key ingredient of quality control.

		Principal Occupation
Board of Directors	R. K. Banister	*President* *Banister-Price International, Inc.*
	R. T. Banister	*Chairman & President of the Company*
	S. S. Beauregard	*Consultant*
	R. Bernstein	*Partner* *Bear, Stearns & Co.* *Investment Bankers*
	N. Fraser	*Consultant*
	A. T. Seedhouse	*Chairman of the Board* *The Manufacturers Life* *Insurance Company*
	A. M. Shoults	*Chairman of the Board* *CHQT Broadcasting Ltd.* *Radio Station Operator*
	S. J. Silberman	*Partner* *Kaye, Scholer, Fierman, Hays* *& Handler — Attorneys*
	J. H. Smith	*Consulting Engineer*
Officers	R. T. Banister	*Chairman & President*
	O. J. Johanson	*Senior Vice President*
	H. W. Laslop	*Vice President & Treasurer*
	K. H. Lambert	*Vice President & Secretary*
Executive Offices	5807-104th Street Edmonton, Alberta T5J 2R4	
Registrars & Transfer Agents	First National City Bank 111 Wall Street New York, N. Y. 10022	The Canada Trust Company 101500-100th Street Edmonton, Alberta T5J 0P6
	The Canada Trust Company 110 Yonge Street Toronto, Ontario M5C 9Z9	The Canada Trust Company 800 Dorchester Blvd. West Montreal, Quebec H3B 1X9
Common stock listed on	American Stock Exchange Montreal Stock Exchange Toronto Stock Exchange	
Auditors	Arthur Young, Clarkson, Gordon & Co.	

Note: Copies of the Corporation's Form 10-K Report to the Securities and Exchange Commission may be obtained by shareholders without charge from the Corporate Secretary, 5807-104th Street, Edmonton, Alberta T5J 2R4.

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